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REPORT OF THE COMMISSION ON ITS NINETEENTH SESSION

Draft report

Addendum

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Chapter __. TRANSNATIONAL CORPORATIONS IN SERVICES, INCLUDING BANKING

1. The Commission considered item 5 of its agenda at its 7th meeting, on 8 April 1993. It had before it the report of the Secretary-General on issues related to the liberalization of foreign direct investment in services (E/C.10/1993/6).

2. In introducing the item, the Chief of the Research and Policy Analysis Branch of the Transnational Corporations and Management Division stated that the service sector was the largest sector in foreign direct investment and that its predominance was likely to continue. Countries that failed to take that into account in their foreign direct investment policies would be left to compete for less than half of the annual flow and miss the fastest growing component of foreign direct investment. Moreover, they might deprive themselves of a range of service products and technologies that were indispensable for increasing their competitiveness but that could not be acquired through trade channels, because most services were not tradeable. That might be especially the case with financial services in developing countries: foreign direct investment in those services was relatively small, and growing slowly. Since financial services, especially banking, were a key service industry, with linkages to many other economic activities, that might lead to an uncompetitive financial sector hampering the efficiency of the whole economy.

3. To prevent that, countries increasingly liberalized foreign direct investment flows to service industries: whereas developed countries had progressed very far in that respect, in developing countries the process had just begun. Furthermore, the liberalization was extending to service industries traditionally closed to foreign direct investment, such as air transportation, telecommunications and even public utilities. As the Chief of the Branch noted, the liberalization of foreign direct investment in services could be a major tool for achieving a more efficient services sector - which, in turn, was the basis for a more efficient industrial sector.

4. All delegations taking the floor agreed that the liberalization of foreign direct investment in services was a major issue because of the important role that an efficient service sector played in the process of development. A number of delegations added that not only the efficiency but also the availability of infrastructure and producer services were crucial in many countries, especially in the countries in transition to a market economy where services had been particularly neglected in the past. Most delegations also agreed on the role that transnational service corporations and service foreign direct investment could play in those respects - that is, as a source of efficiency through the increase of competitive pressures and availability through the supply of quality services. One delegation supported the findings of the report that liberalization should be accompanied by a strengthening of prudential regulations, which were of vital importance for the improvement of market access in a number of service industries. In addition, liberalization, in order to be complete and to permit all benefits, should also address the issue of the movement of labour, especially professional labour. Some delegations, while agreeing with the need and potential positive effects of the liberalization of foreign direct investment or trade in services, pointed out that certain restrictions, limited in time, might be justified to give the domestic industry the chance and time to improve its performance in face of the potential increased competition in the future.

5. Several delegations mentioned the need to have an efficient financial sector, especially in services pertaining to financial intermediation and insurance services. One delegation was of the view that protectionist measures in that sector resulted in higher costs of capital and, in extreme cases, in a lack of access to capital for potentially productive industries. Another delegation stated that, in its country, the liberalization of the financial sector increased macro- and microeconomic efficiency and helped to enhance the competitiveness of the whole economy. Most delegations agreed that more attention should be given in the work of the Division to empirical analysis of the results of the liberalization of rules concerning foreign direct investment in service industries.

6. Most of the delegations that spoke agreed also on the need not only to continue research and technical cooperation in the area but also to strengthen and expand such cooperation, in view of the increasing presence of transnational service corporations in the production and exchange of services, to improve the response capacity of developing countries and to help countries in transition build a service infrastructure by encouraging foreign direct investment in services. They emphasized the need to continue the policy-oriented studies on the effects - positive or negative - of the liberalization of foreign direct investment in services and to expand technical cooperation programmes on how to

encourage foreign direct investment in services. Other issues suggested for further study included the links between foreign direct investment and trade in services in general and the link between the liberalization of foreign direct investment in developing countries and their position in trade in services in particular. The issue of complementarity between foreign and domestic investment in service industries was also suggested as important to developing countries, including the production of services under licence or by joint ventures.

Action taken by the Commission

7. The Commission took note of the report of the Secretary-General on transnational corporations in services, including banking (E/C.10/1993/6). It requested the Secretary-General to strengthen in-depth research and technical cooperation in the area of services, taking into account the deliberations of the Commission, and to submit a report thereon to the Commission at its twentieth session.